FDIC State Profile

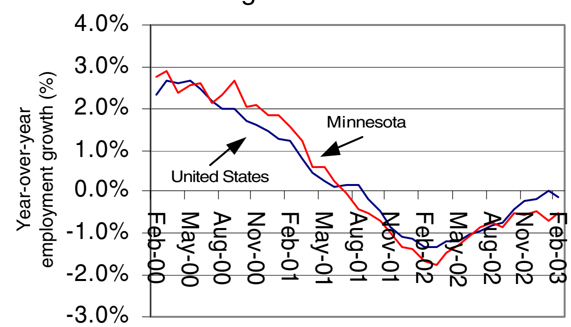
SUMMER 2003

Minnesota

Employment trends continue to be weak in Minnesota.

- Employment in Minnesota continued to decline more rapidly than the nation in early 2003 (see Chart 1). The 2001 national recession was led by weakness in the manufacturing, information technology, and airline sectors, all industries employing a large share of workers in the state.
- Despite the more severe job losses in the state, the duration of unemployment typically has been less than the national average.
- The state's economy is showing modest evidence of improvement, as February data show the smallest decline in manufacturing employment in 21 months and government employment continues to grow in 2003.
- Despite current strength in the government sector, however, a significant state budget deficit may portend layoffs of government workers in 2004.

Chart 1: Employment Growth Continues to Lag National Rate

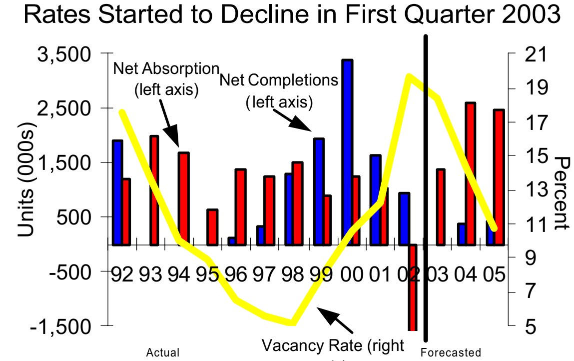


Source: Bureau of Labor Statistics/Haver Analytics

Commercial real estate markets in the Minneapolis MSA have been weakened by the economic downturn.

- A general softening of real estate markets has occurred in the Minneapolis metropolitan area, most notably in office markets, where vacancy rates have increased substantially during the past three years (see Chart 2).
- Office vacancy rates in the metropolitan area increased from 13.4 percent at first quarter 2002 to 18.8 percent in first quarter 2003, reflecting weak absorption trends and an abundance of sublease space.
- Vacancy rates in the area's industrial real estate market also have increased, but considerably less than that observed in comparably sized markets throughout the country.

Chart 2:The Minneapolis Office Market Vacancy Rates Started to Decline in First Quarter 2003



Source: Torto Wheaton Research

Higher prices for Minnesota's major agricultural commodities point to improved farm income in 2003.

- United States Department of Agriculture surveys indicate that Minnesota farmers will increase corn and soybean plantings by 3 percent over 2002, a record year of production for both crops. As shown in Chart 3, Minnesota growers will likely benefit from stronger corn and soybean prices, as U.S. inventories of both crops are at the lowest levels in five years.
- Results for livestock producers have also improved moderately in 2003. Hog and cattle prices have improved, as a result of smaller supplies in both sectors.

Chart 3: Minnesota Commodity Prices Likely to Improve Significantly in 2003

	2001	Est 2002	Proj. 2003	Proportion of State's Ag Revenue
Corn	1.85	1.97	2.35	18%
Soybeans	4.54	4.25	5.40	16%
Wheat	2.62	2.78	3.60	3%
Cattle	72.71	67.50	76.00	11%
Hogs	45.81	33.50	39.00	17%
Milk	14.97	12.10	11.25	16%

Note: Grain prices are for marketing year of each crop.
Crop quantities are per bushel; livestock and milk are per hundredweight
Source: USDA April 2003

- The dairy sector remains stressed with milk prices at historically low levels, contributing to the exit of an increasing number of dairy producers from the industry.

Softening commercial real estate markets challenge the state's metropolitan commercial lenders.

- Many insured institutions in the Minneapolis-St. Paul metropolitan area have increased reliance on commercial real estate (CRE) loans during the past two years (see Chart 4).
- This increased exposure has occurred as the area's CRE markets, most notably office and industrial, softened significantly during the past two years.
- Weakness in CRE markets is not evident in total past-due figures. The December 2002 median loan delinquency ratio was a relatively low 1.5 percent, unchanged from two years ago. Moreover, the proportion of insured institutions reporting delinquency ratios exceeding 5 percent is a relatively low 5.6 percent.

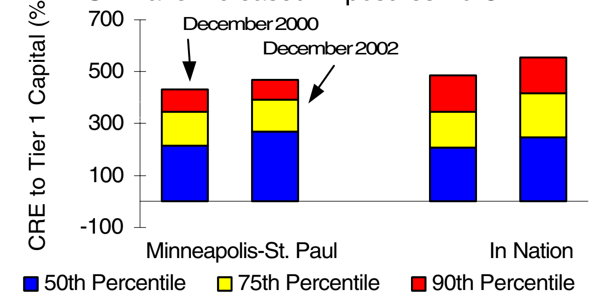
Community banks headquartered in Minnesota report minimal deterioration in asset quality, despite the economic slowdown.

- Noncurrent and past-due loan levels remain moderate and have not risen notably among most insured institutions headquartered in Minnesota (see Chart 5).
- Loan loss reserve levels have declined in proportion to total loans, but are stable relative to the level of problem loans.

Community institutions in Minnesota continue to face funding challenges.

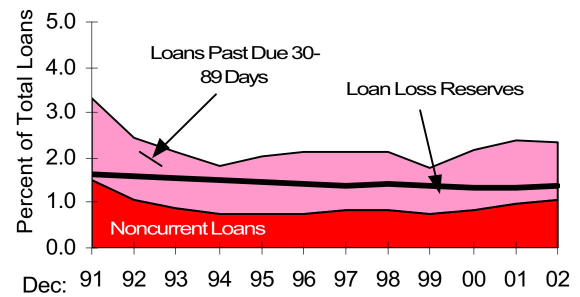
- Utilization of core funds to support assets declined steadily throughout the 1990s, because of negative population trends, competitive challenges from larger banks and nonbanks, and significant disintermediation of funds into the stock and bond markets. As a result, the median core deposits to total assets ratio for community institutions declined from 85 percent to 77 percent between year-end 1992 and year-end 2002.
- To counter declining deposits, community institutions headquartered in Minnesota increased reliance on noncore funds, such as large time deposits and borrowings.
- The use of borrowings, primarily Federal Home Loan Bank advances, has increased dramatically. Between December 1997 and December 2002, the proportion of community institutions with borrowings making up at least 10 percent of total funds increased from 7.2 percent to 15.3 percent.

Chart 4: Insured Institutions in the Minneapolis MSA Have Increased Exposures To CRE



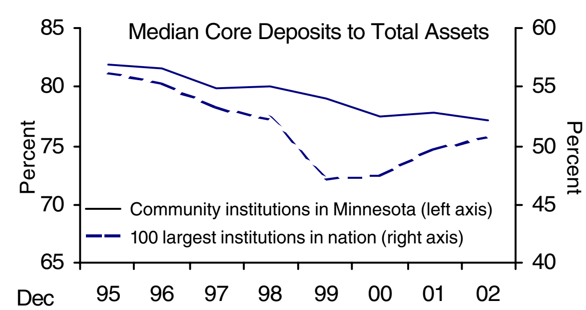
CRE Loans are loans made for construction or development, multifamily housing, or nonresidential real estate.
Source: Bank and Thrift Call Reports, excluding new and specialty

Chart 5: Past-Due Loans Remain Relatively Low and Reserves Remain Stable



Source: Bank Call Reports, commercial banks with assets less than $250 million headquartered in Minnesota, excluding de novos and specialty banks

Chart 6: Core Funding Has Increased at Larger Institutions More Than Smaller Institutions



Source: Bank and Thrift Call Reports. Community institutions are FDIC-insured institutions with total assets under $250 million headquartered in Minnesota.

- The weak economy and significant declines in the stock market have prompted a great shift of deposit funds into the banking system. However, as seen in Chart 5, most of the benefit has accrued to the nation's larger banks.
- See *"Kansas City Regional Perspectives - Despite Recent Deposit Growth, Community Banks Continue to Face Funding Challenge,"* FDIC Outlook, Spring 2003, for further discussion about funding.

Minnesota at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	487	504	514	519	536
Total Assets (in thousands)	111,175,757	110,453,163	189,973,669	160,160,027	150,265,661
New Institutions (# < 3 years)	14	19	21	17	19
New Institutions (# < 9 years)	33	37	37	28	30

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	8.92	8.81	8.91	8.86	8.96

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	1.84%	2.01%	1.81%	1.39%	1.82%
Past-Due and Nonaccrual >= 5%	48	51	36	32	37
ALLL/Total Loans (median %)	1.27%	1.26%	1.25%	1.30%	1.33%
ALLL/Noncurrent Loans (median multiple)	1.66	1.69	2.26	2.45	2.22
Net Loan Losses/Loans (aggregate)	0.25%	0.29%	0.62%	0.58%	0.48%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	19	21	22	18	12
Percent Unprofitable	3.90%	4.17%	4.28%	3.47%	2.24%
Return on Assets (median %)	1.26	1.14	1.14	1.14	1.14
25th Percentile	0.86	0.73	0.77	0.78	0.81
Net Interest Margin (median %)	4.51%	4.39%	4.48%	4.46%	4.57%
Yield on Earning Assets (median)	6.89%	8.01%	8.47%	8.05%	8.33%
Cost of Funding Earning Assets (median)	2.40%	3.63%	3.95%	3.60%	3.82%
Provisions to Avg. Assets (median)	0.16%	0.14%	0.12%	0.11%	0.11%
Noninterest Income to Avg. Assets (median)	0.63%	0.63%	0.61%	0.66%	0.64%
Overhead to Avg. Assets (median)	3.02%	3.02%	3.03%	3.08%	3.09%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	78.15%	76.30%	76.74%	73.80%	70.64%
Loans to Assets (median %)	65.80%	65.16%	65.83%	63.24%	60.96%
Brokered Deposits (# of Institutions)	135	133	134	120	126
Bro. Deps./Assets (median for above inst.)	3.27%	3.07%	3.18%	2.95%	3.33%
Noncore Funding to Assets (median)	12.14%	11.45%	11.78%	10.68%	9.29%
Core Funding to Assets (median)	76.52%	76.53%	76.61%	78.25%	79.03%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	317	329	336	334	345
National	121	125	128	134	140
State Member	27	27	28	29	29
S&L	10	10	10	10	10
Savings Bank	12	13	12	12	12
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	310	22,173,692	63.66%	19.94%
Minneapolis-St Paul MN-WI	115	83,240,335	23.61%	74.87%
St Cloud MN	21	2,285,107	4.31%	2.06%
Duluth-Superior MN-WI	18	1,160,327	3.70%	1.04%
Rochester MN	6	974,759	1.23%	0.88%
La Crosse WI-MN	6	244,433	1.23%	0.22%
Grand Forks ND-MN	6	274,082	1.23%	0.25%
Fargo-Moorhead ND-MN	5	823,022	1.03%	0.74%